

PERFORMANCE AUDIT
OF
SELECTED COMMUNITY COLLEGES' REPORTING OF
ACTIVITIES CLASSIFICATION STRUCTURE DATA

June 2004

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Performance Audit

Selected Community Colleges' Reporting of Activities Classification Structure Data

Report Number:
63-500-04

Released:
June 2004

The activities classification structure (ACS) was developed in response to Section 8, Act 419, P.A. 1978. Also, uniform data reporting requirements were developed for use in making State budget and appropriation decisions. Act 117, P.A. 1984, provided for a funding formula to be used to determine State aid for each community college based on ACS data. The Department of Labor and Economic Growth (DLEG) is responsible for the collection and analysis of certain ACS data.

Audit Purpose:

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and was mandated by Act 146, P.A. 2003, the annual appropriations act for community colleges.

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Audit Objective:

To assess whether colleges reported ACS data to DLEG on the ACS forms in accordance with the provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

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Audit Conclusion:

We concluded that the selected community colleges generally reported ACS data to DLEG on the ACS forms in accordance

with the provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, MUFR, and DLEG's annual instructions. However, we did identify reportable conditions relating to student course enrollment data reporting, contact hour calculations and reporting, cost allocations and expenditure reporting, activity measures - energy costs, and activity measures - building footage (Findings 1 through 5).

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Agency Responses:

Our audit includes 5 findings and 5 corresponding recommendations. We discussed our audit findings, with the management of each community college. The colleges' responses indicated general concurrence with our findings.

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A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
<http://audgen.michigan.gov>



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 15, 2004

The Honorable Shirley Johnson, Chairperson
Senate Appropriations Committee
Michigan Senate
and
The Honorable Marc Shulman, Chairperson
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan
and
Ms. Mary A. Lannoye, State Budget Director
Office of the State Budget
Department of Management and Budget
George W. Romney Building
Lansing, Michigan

Dear Senator Johnson, Representative Shulman, Mr. Hollister, and Ms. Lannoye:

This is our report on the performance audit of Selected Community Colleges' Reporting of Activities Classification Structure Data for the colleges' fiscal year 2002-03 (July 1, 2002 through June 30, 2003). This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and was mandated by Act 146, P.A. 2003, the annual appropriations act for community colleges.

This report contains our report summary; description of reported data; audit objective, scope, and methodology and agency responses; comment, findings, and recommendations; a summary of audit findings by college, presented as supplemental information; and a glossary of acronyms and terms.

Annual appropriations acts require that the audited institutions develop formal responses within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us by the community colleges.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Reported Data

The activities classification structure (ACS) was developed in response to Section 8, Act 419, P.A. 1978 (a section of the fiscal year 1978-79 appropriations act for community colleges). Also, uniform data reporting requirements were developed for use in making State budget and appropriation decisions. Act 117, P.A. 1984, provided for a funding formula to be used to determine State aid for each community college. The funding formula is based on ACS data, such as full-time equated students, contact hours, expenditures, and other activity measures. For fiscal year 2002-03, Act 146, P.A. 2003, continued with the reporting requirements as established in Act 117, P.A. 1984.

The development of ACS has proven beneficial in that ACS:

1. Assists in the collection of uniform and comparable financial data from the 28 State-supported community colleges.
2. Provides an internal management tool to relate information about resources and activities to the achievement of institutional objectives.
3. Interfaces a State reporting structure with accounting practices and organizational structures common to the community college system.
4. Provides a framework for identifying areas of institutional similarities and differences.
5. Provides a logical basis for determining the gross need of individual colleges and of the total system, which then becomes translated into State appropriations.

Executive Order No. 2003-18 transferred ACS report collection and analysis from the Michigan Department of Career Development to the Department of Labor and Economic Growth (DLEG), effective December 7, 2003.

DLEG is responsible for the collection and analysis of certain data submitted by the colleges on the various ACS forms. Colleges are to report ACS data in accordance with provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting for Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The audit objective for our performance audit* of Selected Community Colleges' Reporting of Activities Classification Structure Data was to assess whether colleges reported activities classification structure (ACS) data to the Department of Labor and Economic Growth (DLEG) on the ACS forms in accordance with the provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

Audit Scope

Our audit scope was to examine selected records supporting the activities classification structure data reported by seven community colleges for their fiscal year ended June 30, 2003. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We randomly selected the following seven colleges to be audited and obtained ACS data for the colleges from DLEG:

Glen Oaks Community College
Gogebic Community College
Grand Rapids Community College
Kirtland Community College
Macomb County Community College
Mid Michigan Community College
Montcalm Community College

Audit Methodology

Our fieldwork was performed from February through March 2004. We interviewed staff responsible for preparing and submitting ACS data at each college. We tested the reporting of general fund expenditure data at the activity, sub-activity, and element

* See glossary at end of report for definition.

levels and supporting documentation related to tuition rates and local financing. We also tested the accuracy of reported contact and credit hours and headcount totals; class lists for headcounts, including in-district and out-of-district classification, class drop and add adjustments, and registration documentation; contact hour calculations; and methods for determining legal residency. In addition, we tested supporting documentation for energy usage and costs and the accuracy of reported physical plant area and volume.

Agency Responses

Our audit includes 5 findings and 5 corresponding recommendations. We discussed our audit findings with the management of each community college. The colleges' responses indicated general concurrence with our findings.

Annual community college appropriations acts require the principal executive officers of the audited institutions to submit written responses to our audit to the House and Senate Appropriations Committees, the House and Senate Fiscal Agencies, the Department of Labor and Economic Growth, the Auditor General, and the State budget director. The responses are due within 60 days after the audit report has been issued and should specify the action taken by the institutions regarding the audit report's recommendations.

COMMENT, FINDINGS, AND RECOMMENDATIONS

ACCURACY OF REPORTED DATA

COMMENT

Audit Objective: To assess whether colleges reported activities classification structure (ACS) data to the Department of Labor and Economic Growth (DLEG) on the ACS forms in accordance with the provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

Conclusion: We concluded that the selected community colleges generally reported ACS data to DLEG on the ACS forms in accordance with the provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, MUFR, and DLEG's annual instructions. However, we did identify reportable conditions* relating to student course enrollment data reporting, contact hour calculations and reporting, cost allocations and expenditure reporting, activity measures - energy costs, and activity measures - building footage (Findings 1 through 5).

These reporting errors were not considered material and may not necessarily have a direct dollar impact on the community colleges' funding. However, it is important for comparative analyses that all community colleges report their enrollment and other ACS data in a consistent manner that adheres to the provisions of the annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, MUFR, and DLEG's annual instructions.

Several of our audit findings pertain to more than one college; therefore, we have included a summary of audit findings by college, presented as supplemental information, to identify the specific colleges involved.

FINDING

1. Student Course Enrollment Data Reporting

Three colleges reported student course enrollment data on the course enrollment data by instructional element, sub-activity, and activity form (ACS 6) that did not

* See glossary at end of report for definition.

agree with supporting class lists and class summaries. As a result, we could not verify that enrollment data submitted for use in the funding formula was accurate.

The annual appropriations act for community colleges (Act 146, P.A. 2003) and DLEG's instructions require the colleges to generate their ACS 6's using class lists and class summaries as of the count date. DLEG's instructions also require that the data reported to DLEG on the ACS 6 must be consistent with that shown on the class lists and class summaries. Our comparison of the colleges' ACS 6's with supporting documentation disclosed:

- a. Kirtland Community Colleges did not accurately report the number of courses taught on its ACS 6. The College counted courses each semester that were taught during the academic year. Per DLEG's instructions, identical college courses taught in more than one semester during the academic year are to be counted only once. As a result, the College overstated the number of courses taught, as reported on its ACS 6, by 272 courses.
- b. Grand Rapids Community College did not maintain adequate documentation to support the number of courses offered, the number of sections offered, student head count, student contact hours, or student credit hours reported on its ACS 6. The College maintains this information on a real-time data system, which provides this information only on a current basis. The College prepared the ACS 6 as of the count date, but it did not ensure that appropriate documentation was maintained as of the count date for audit purposes as required. In response to our inquiries, the College produced various documents that did not reconcile with the ACS 6 as of the count date but did provide reasonable assurance that the data reported on the ACS 6 was materially correct.
- c. Mid Michigan Community College incorrectly reported its in-district and out-of-district student headcount, contact hours, and credit hours on its ACS 6 report. However, our review disclosed that the data reported on the ACS 6 was materially correct.

RECOMMENDATION

We recommend that the colleges report student course enrollment data that agrees with supporting class lists and class summaries.

FINDING

2. Contact Hour Calculations and Reporting

Kirtland Community College did not verify the accuracy of the student contact hours reported on the ACS 6, as required by DLEG's instructions. As a result, we could not verify that the student contact hours reported by the College were accurate.

The accurate reporting of student contact hours by all colleges is important because the number of student contact hours is an integral part of the community college funding formula.

DLEG's instructions require that colleges verify the accuracy of reported student contact hours by performing an actual calculation based on a random sample of courses to determine the actual contact hour difference and that the colleges maintain documentation of their random samples for audit purposes.

Our review disclosed that Kirtland Community College did not conduct a random sample of courses to determine the accuracy of its contact hours.

RECOMMENDATION

We recommend that Kirtland Community College conduct a random sample of courses offered to verify the accuracy of reported student contact hours, as required by DLEG's instructions.

FINDING

3. Cost Allocations and Expenditure Reporting

Five colleges sometimes did not properly allocate costs or report some expenditures on their activity/sub-activity/element general fund expenditures forms (ACS 3's).

Accurate reporting of expenditures is necessary for comparable analyses of expenditures among the 28 community colleges. This information is used to determine the financial need of the individual colleges in the appropriation process.

The annual appropriations act for community colleges (Act 146, P.A. 2003), the ACS Manual for Michigan Community Colleges, MUFR, and DLEG's annual

instructions provide direction to community colleges on the proper allocation and reporting of expenditures. Our limited testing disclosed:

- a. Grand Rapids, Glen Oaks, and Kirtland Community Colleges did not report library book purchases as capital expenditures as required by DLEG's instructions. Grand Rapids Community College reported library book purchases of \$67,612 as facility expenditures. Glen Oaks and Kirtland Community Colleges reported library book purchases in the "Other" category in the amounts of \$9,025 and \$29,417, respectively.
- b. Mid Michigan Community College capitalized the cost for periodicals of \$34,981. DLEG's instructions state that the cost of periodicals should not be capitalized.
- c. Mid Michigan Community College did not appropriately allocate computer costs to the various ACS areas that receive computer support in accordance with DLEG's instructions. According to College staff, all computer costs are reported in sub-activity 6.2, General Administration, and the salaries and wages for computer operations are reported under the "Salaries" and "Fringes" columns instead of the "Computer" column.

WE NOTED THIS SAME EXCEPTION IN OUR PRIOR AUDIT OF THE COLLEGE FOR ITS FISCAL YEAR 1996-97.

- d. Mid Michigan Community College did not allocate work-study expenditures in the amount of \$16,886 to the department or organizational unit to which the service was rendered in accordance with DLEG's instructions. The work-study expenditures were reported in sub-activity 5.4, Financial Aid and Placement.

WE NOTED THIS SAME EXCEPTION IN OUR PRIOR AUDIT OF THE COLLEGE FOR ITS FISCAL YEAR 1996-97.

- e. Montcalm Community College did not report energy expenditures in the proper category on the ACS 3 and did not report all energy expenditures in sub-activity 7.4, Energy Services, as required by DLEG's instructions. The College reported the energy expenditures in the "Facility" column for sub-activity 3.2, Services to Community, in the amount of \$13,310 and in the "Facility" column of sub-activity 4.4, Instructional Administration, in the amount of \$77,575. This

resulted in energy costs being understated for sub-activity code 7.4 by \$90,885.

- f. Glen Oaks Community College overstated the amount reported in activity 5.0, Student Services, by \$38,420. This amount is for employee tuition remission. Per the ACS Manual, employee tuition remission is to be treated as fringe benefits and allocated to the same sub-activity as employee's salary and fringes.
- g. Glen Oaks Community College improperly reported financial aid awarded in sub-activity 5.1, Student Services Administration. The ACS Manual requires financial aid awarded to be recorded in sub-activity 5.4, Financial Aid and Placement. As a result, sub-activity 5.1 was overstated and sub-activity 5.4 was understated by \$243,528.
- h. Glen Oaks Community College did not report computer costs in the "Computer" column and did not allocate its costs to the sub-activities related to Internet services, which provide benefits to the whole College. The College charged computer salaries to only sub-activities 4.4, Instructional Administration, and 6.2, General Administration, while other sub-activities should have received charges. In addition, the College only charged other computer costs to sub-activities 4.4 and 6.2. At a minimum, these costs should be allocated to the sub-activities in the same percentages as salaries. This resulted in sub-activities 4.4 and 6.2 being overstated.
- i. Kirtland Community College did not report classroom rental cost of \$38,881 in the "Facility" column as required by ACS 3 instructions. The College reported these costs in the "Other" column.
- j. Kirtland Community College reported \$49,095 in the "Capital" column for sub-activity 1.12, Communications, due to a posting error. Of that amount, \$15,014 should have been reported in the "Facility" column and \$34,083 should have been reported in the "Other" column.
- k. Kirtland Community College allocated energy costs to various improper sub-activities on its ACS 3. Per ACS 3 instructions, all costs related to heating, cooling, light and power, gas and water, and any other utilities necessary for the operation of the physical plant should be reported as

sub-activity 7.4, Energy Services, under the "Other" column. As a result, the College understated reported energy costs by \$73,704.

RECOMMENDATION

We recommend that the colleges properly report expenditures on their ACS 3's.

FINDING

4. Activity Measures - Energy Costs

Four colleges did not accurately report energy costs or physical plant costs on their plant and grounds expenditures and activity measures forms (ACS 7's) in accordance with DLEG's instructions.

Accurate reporting of energy expenditures is necessary for comparable analyses of expenditures among the 28 community colleges. This information is used to determine the financial need of the individual colleges in the appropriation process.

Our review disclosed:

- a. Gogebic Community College understated its physical plant total and its general fund general plant on its ACS 7 by \$525,853 and \$485,117, respectively. For its physical plant, the College reported only water and energy expenditures.
- b. Grand Rapids Community College understated its energy general fund on its ACS 7 by \$630,000. This was caused by a typographical error.
- c. Mid Michigan Community College overstated its physical plant general fund by \$122,607 and its physical plant total by \$78,601.
- d. Montcalm Community College did not accurately report its total energy cost. Energy general fund was overstated by \$5,364 and energy total was understated by \$3,341.

RECOMMENDATION

We recommend that the colleges accurately report energy costs and physical plant costs on their ACS 7's in accordance with DLEG's instructions.

FINDING

5. Activity Measures - Building Footage

Kirtland Community College could not provide documentation to support the square and cubic footage reported on its ACS 7.

The College reported that the combined total of its physical plant was 276,469 square feet of space and 3,847,580 cubic feet of space. Accurate reporting of square and cubic footage is necessary to determine the physical plant need for each college.

Section 212, Act 146, P.A. 2003, states that a community college shall maintain and provide those records necessary to determine the accuracy of reported data.

Kirtland Community College staff indicated that the square and cubic footage reported was based on historical data and that changes have been made to the property. They are currently in the process of determining the actual square and cubic footage for ACS reporting requirements.

RECOMMENDATION

We recommend that Kirtland Community College maintain documentation to support the square and cubic footage reported on its ACS 7.

SUPPLEMENTAL INFORMATION

SELECTED COMMUNITY COLLEGES' REPORTING OF
ACTIVITIES CLASSIFICATION STRUCTURE DATA
Summary of Audit Findings by College
July 1, 2002 through June 30, 2003

<u>Audit Finding</u>	<u>Glen Oaks Community College</u>	<u>Gogebic Community College</u>	<u>Grand Rapids Community College</u>	<u>Kirtland Community College</u>	<u>Macomb County Community College</u>	<u>Mid Michigan Community College</u>	<u>Montcalm Community College</u>
1 (a)				X			
1 (b)			X				
1 (c)						X	
2				X			
3 (a)	X		X	X			
3 (b)						X	
3 (c)						X	
3 (d)						X	
3 (e)							X
3 (f)	X						
3 (g)	X						
3 (h)	X						
3 (i)				X			
3 (j)				X			
3 (k)				X			
4 (a)		X					
4 (b)			X				
4 (c)						X	
4 (d)							X
5				X			

GLOSSARY

Glossary of Acronyms and Terms

ACS	activities classification structure.
ACS 3	activity/sub-activity/element general fund expenditures form.
ACS 6	course enrollment data by instructional element, sub-activity, and activity form.
ACS 7	plant and grounds expenditures and activity measures form.
DLEG	Department of Labor and Economic Growth.
MUFR	Manual for Uniform Financial Reporting of Michigan Public Community Colleges.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.